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More Than 100 Colleges Fail Education Department's Test of Financial Strength

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A newly compiled analysis by the U.S. Department of Education and obtained by *The Chronicle* shows that 114 private nonprofit degree-granting colleges were in such fragile financial condition at the end of their last fiscal year that they failed the department's financial-responsibility test.

Colleges that fail the test are subject to extra monitoring on their use of federal student-aid funds. The 65 of these that scored the lowest also have to post letters of credit with the department to help protect the safety of the loan and grant money that flows through their institutions.

Although not designed as such, failing the test can be an indicator that a college is in danger of not surviving. Over the past year, at least five of the institutions that show up as failing the financial test based on data from their 2007 or 2008 fiscal years have either shut down, merged with a wealthier nonprofit college, or sold themselves to a for-profit college company.

Those include John F. Kennedy University in California, which affiliated with the National University system in April, Daniel Webster College in New Hampshire, which announced in April it would be acquired by ITT Educational Services Inc., and Myers University (renamed Chancellor University) in Ohio, which was bought in August 2008 by some of the same investors who bought Grand Canyon University a few years ago. It also includes Waldorf College in Iowa, which is in talks to be bought by the for-profit Columbia Southern University, and the College of Santa Fe, which closed in May and is now in purchase discussions with Laureate Education Inc.

Other institutions on the list have recently made headlines for failing to make their payroll (Lambuth University in Tennessee), or for cutting retirement contributions for employees (Dana College in Nebraska).

Wells College appears in department records as having a failing score, but officials there said last week that they had been assured by the department that its score was still "under review." Department officials did not respond by press time to inquiries by *The Chronicle* about Wells.

Those that scored below 1.0 (on a scale of minus-1 to 3) must post letters of credit with the department equal to 10 percent of the federal aid they award, which further crimps their liquidity. In addition to a number of religious colleges, these geographically diverse institutions include Ava Maria School of Law in Michigan, Concordia University in California, Newbury College in Massachusetts, and Paul Quinn College in Texas. (See table, Page A22.)

A Financial Burden

Colleges are required to submit audited financial statements to the Education Department within nine months of the end of their fiscal year. Since that is June 30 for most institutions, the list obtained by *The Chronicle* under the Freedom of Information Act is based on the most current data available. (Some of the department's scores are based on 2007 fiscal-year data.) It does not reflect the difficult financial pressures many colleges are facing this fiscal year.

Although colleges that do not meet the test can continue to award federal student aid, the added scrutiny that comes with a failing score can be a management and financial burden. "Our goal is to get ourselves out of the letter-of-credit situation," said Joyce Hanlon, vice president for finance and chief financial officer at Newbury, which was required to secure a letter of credit guaranteeing \$550,000 in February 2008 because of its 2007 financial condition.

Newbury's finances improved by the end of its 2008 fiscal year, but not by enough to have the letter-of-credit requirement lifted. "We are just in the beginning phases of turning the college around," Ms. Hanlon said.

Colleges that stumble one year sometimes recover the next.

Phillips Graduate Institute, in California, for instance, had been posting a \$600,000 letter of credit until January of 2009, when, based on its 2008 fiscal-year financials, it scored high enough to pass.

"We're out from under. We're going to stay out from under," said Linda Perez, the institute's chief financial officer. In Phillips's case, the master's and doctoral institution shored up its finances by expanding enrollment, refinancing some debt, and reducing expenses. "It was a wake-up call," Ms. Perez said.

The test involves calculation of a composite score based on three ratios that take into account such factors as debt load, expenses relative to income, and overall resources of the institution.

"It doesn't take much to throw off a ratio," said Todd S. Hutton, president of Utica College, in Upstate New York. "Our margins are razor thin." Utica failed the test based on its 2008 financials despite record enrollment that year. But the college also drew down its cash reserves that year to undertake some construction projects.

Though Utica's score wasn't low enough to trigger a letter-of-credit requirement, Mr. Hutton said it was partly out of concern about its score that Utica decided to hold off on some expensive energy-improvement projects it had been considering. Even though the additional liabilities would have been temporary, it didn't want them on its balance sheet "because of these kinds of issues."

The financial circumstances of every institution differ, so it would be wrong to assume that every college that fails the test is in financial trouble. Tiffin University, in Ohio, said its finances are strong, but it has failed the test for the past few years because of the way it accounts for liabilities

related to a university-owned retirement complex. Now that it has sold the complex (for "a modest profit" according to an official there,) it expects to pass the test when it submits its latest financial statements.

Still, with so few other public indicators of colleges' financial health available, particularly of smaller colleges that are not subject to scrutiny by credit-rating agencies, this roster of colleges may be a bellwether of trouble.

Or, for a growing cadre of companies, investors, and entrepreneurs who scour the country in search of ailing nonprofit colleges as acquisition targets, it might also become a shopping list. Said Joseph Schmoke, chief executive officer at the all-online Andrew Jackson University, one investor looking to acquire a brand-name campus: "The trail has been blazed."

COLLEGES THAT FAILED THE EDUCATION DEPARTMENT'S FINANCIAL-RESPONSIBILITY TEST

These 114 private, nonprofit, degree-granting institutions scored below 1.5, the passing level.

Institution	State	Fiscal year (ended)	Score
Acupuncture and Integrative Medicine College	Calif.	June 2008	-1.0
City College at Casselberry	Fla.	December 2007	-1.0
Kendall College	Ill.	June 2008	-1.0
Chancellor U.	Ohio	June 2008	-1.0
Robert B. Miller College	Mich.	June 2008	-1.0
Ave Maria School of Law	Mich.	June 2008	-0.9
Rochester College	Mich.	May 2008	-0.8
Long Island College Hospital School of Nursing	N.Y.	December 2007	-0.6
Saint Vincent Catholic Medical Centers of New York	N.Y.	December 2007	-0.6
Hebrew College	Mass.	June 2008	-0.3
San Francisco Art Institute	Calif.	June 2008	-0.3
Trinity Life Bible College	Calif.	June 2008	-0.3
Edward Via Virginia College of Osteopathic Medicine	Va.	June 2008	-0.2
Hebrew Theological College	Ill.	June 2008	-0.2
Hope International U.	Calif.	May 2008	-0.2
St. Andrews Presbyterian College	N.C.	May 2008	-0.2
Davis College (N.Y.)	N.Y.	June 2008	-0.1
Tai Sophia Institute	Md.	July 2007	-0.1
Vanguard U. of Southern California	Calif.	June 2008	-0.1
Bethel College (Ind.)	Ind.	June 2008	0.1
Crossroads College	Minn.	June 2008	0.2
General Theological Seminary	N.Y.	June 2008	0.2
Hillsdale Free Will Baptist College	Okla.	June 2008	0.2
St. Petersburg Theological Seminary	Fla.	June 2009	0.3
Thomas More College of Liberal Arts	N.H.	May 2008	0.3
Central Christian College of Kansas	Kan.	June 2008	0.4
La Roche College	Pa.	June 2008	0.4
Lambuth U.	Tenn.	June 2008	0.4

Concordia U. (Calif.)	Calif.	June 2008	0.5
Daniel Webster College	N.H.	June 2008	0.5
Waldorf College	Iowa	May 2008	0.5
Wolford College	Fla.	June 2008	0.5
American Conservatory Theater	Calif.	June 2008	0.6
Baptist Theological Seminary at Richmond	Va.	June 2008	0.6
Dana College	Neb.	May 2008	0.6
Eden Theological Seminary	Mo.	June 2008	0.6
Newbury College	Mass.	June 2008	0.6
Northeastern Seminary	N.Y.	June 2008	0.6
Ohio Valley U.	W.Va.	June 2008	0.6
Paul Quinn College	Tex.	June 2008	0.6
Pine Manor College	Mass.	June 2008	0.6
Rabbinical College of Telshe	Ohio	June 2008	0.6
Traditional Chinese Medical College of Hawaii	Hawaii	June 2008	0.6
Valley Forge Christian College	Pa.	June 2008	0.6
Caldwell College	N.J.	June 2008	0.7
Crossroads Bible College	Ind.	June 2008	0.7
Kuyper College	Mich.	June 2008	0.7
Lutheran Theological Seminary at Philadelphia	Pa.	June 2008	0.7
North American Baptist Seminary	S.D.	June 2008	0.7
Southern Catholic College	Ga.	June 2008	0.7
Boulder College of Massage Therapy	Colo.	December 2007	0.8
California Institute of Integral Studies	Calif.	June 2008	0.8
Siena Heights U.	Mich.	June 2008	0.8
Tennessee Wesleyan College	Tenn.	June 2008	0.8
Wells College	N.Y.	June 2008	0.8
Bacone College	Okla.	July 2007	0.9
Dominican College of Blauvelt	N.Y.	June 2008	0.9
Family of Faith College	Okla.	June 2008	0.9
Harcum College	Pa.	June 2008	0.9
Lutheran School of Theology at Chicago	Ill.	June 2008	0.9
Montreat College	N.C.	June 2008	0.9
Newberry College	S.C.	June 2008	0.9
Rabbinical College Beth Shraga	N.Y.	August 2007	0.9
School of Urban Missions at Oakland	Calif.	June 2008	0.9
Wesley Biblical Seminary	Miss.	June 2008	0.9
Evangel U.	Mo.	April 2008	1.0
Messenger College	Mo.	June 2008	1.0
Milwaukee Institute of Art & Design	Wis.	May 2008	1.0
Southeastern U. (D.C.)	D.C.	August 2007	1.0
Springfield College in Illinois	Ill.	May 2008	1.0
Trinity Lutheran College	Wash.	June 2008	1.0
Yeshivath Beth Moshe	Pa.	June 2008	1.0
Atlantic Union College	Mass.	May 2008	1.1
Dallas Christian College	Tex.	June 2008	1.1
Florida Christian College	Fla.	May 2008	1.1
Louisburg College	N.C.	May 2008	1.1
Nyack College	N.Y.	June 2008	1.1
Ottawa U.	Kan.	June 2008	1.1
Boston Baptist College	Mass.	June 2008	1.2
Central Baptist Theological Seminary (Kan.)	Kan.	July 2007	1.2
Concordia College (Ala.)	Ala.	June 2008	1.2

Houston Graduate School of Theology	Tex.	June 2008	1.2
Lexington College	Ill.	June 2008	1.2
Mount Olive College	N.C.	June 2008	1.2
Seabury-Western Theological Seminary	Ill.	June 2008	1.2
Tiffin U.	Ohio	June 2008	1.2
Trinity Bible College	N.D.	May 2008	1.2
Utica College	N.Y.	May 2008	1.2
American College of Traditional Chinese Medicine	Calif.	September 2007	1.3
Benedict College	S.C.	June 2008	1.3
Brevard College	N.C.	May 2008	1.3
Brewton-Parker College	Ga.	June 2008	1.3
Clinton Junior College	S.C.	June 2008	1.3
Finlandia U.	Mich.	June 2008	1.3
Rosemont College	Pa.	June 2008	1.3
Unification Theological Seminary	N.Y.	June 2008	1.3
United Theological Seminary	Ohio	June 2008	1.3
Williamson Christian College	Tenn.	June 2008	1.3
York College	Neb.	June 2008	1.3
Alliant International U.	Calif.	June 2008	1.4
Arlington Baptist College	Tex.	May 2008	1.4
Calvary Bible College and Theological Seminary	Mo.	June 2008	1.4
Christ the King Seminary	N.Y.	May 2008	1.4
Concordia U. (Ill.)	Ill.	June 2008	1.4
Dakota Wesleyan U.	S.D.	May 2008	1.4
Elms College	Mass.	June 2008	1.4
Eugene Bible College	Ore.	June 2008	1.4
Eureka College	Ill.	June 2008	1.4
John F. Kennedy U.	Calif.	June 2008	1.4
MacMurray College	Ill.	May 2008	1.4
Olivet College	Mich.	June 2008	1.4
Rabbinical College of Long Island	N.Y.	June 2008	1.4
Southwestern Christian U.	Okla.	June 2008	1.4
St. Vincent De Paul Regional Seminary	Fla.	June 2008	1.4

NOTE: All private colleges that award federal student aid must participate in the Department of Education's financial-responsibility test, which is based on information from their audited financial statements. The department develops a composite score on a scale of 3.0 to minus 1.0, based on financial ratios that measure factors such as net worth, operating losses, and the relationship of assets to liabilities. Institutions with scores of 1.5 to 3 pass. In addition to extra monitoring for all institutions that "fail," those with scores below 1.0 are required to post a letter of credit with the department equal to 10 percent of the federal student aid that goes to their students annually.

SOURCE: U.S. Department of Education